Financial Report

OF

GEO. A. HORMEL & COMPANY

AUSTIN, MINNESOTA

for the

Fiscal Year Ended October 30, 1948

OFFICERS

Jay C. Hormel	Chairman of the Board
H. H. Corey	President
R. F. Gray	Executive Vice President
R. H. Daigneau	Vice President
Park Dougherty	Vice President
Clarence A. Nockleby	Vice President
J. L. Olson	Vice President
T. H. Hocker	Vice President
R. D. Gower	Vice President and Controller
Geo. W. Ryan	Secretary
M. F. Dugan	Treasurer

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DIRECTORS

R. S. Banfield
S. D. Catherwood
H. H. Corey
R. H. Daigneau
Park Dougherty
M. F. Dugan
R. D. Gower
R. F. Gray
T. H. Hocker
Jay C. Hormel
Clarence A. Nockleby
J. L. Olson

Austin, Minn.
December 3, 1948

To the Stockholders of
Geo. A. Hormel & Company:

The earnings statement and balance sheet of your Company for the year ended October 30, 1948, is submitted herewith.

Capital stock and surplus amounts to $21,810,282. The Company has no funded debt. It had no borrowed money nor other indebtedness at the year end beyond current and customary bills. Its net working capital amounts to $10,716,524.

As has been its custom in the past, the Company continues to price its inventory at the lower of cost or market. At the same time, our policy continues to keep inventories at a minimum, in spite of which we have a higher than usual inventory money valuation. It is expected that there will be a time when inventory values will decline in such a way as to affect the profit trend in our business, and in the industry. Being unable to forecast the time the trend will change, we will continue the minimum inventory policy against that eventuality.

In tonnage, total sales of products for the year amounted to 696,677,090 pounds, which is an increase of 7.8 percent over the war-time peak of 1944.

In dollars, net sales amounted to $265,417,684, which is 17.0 percent more than last year and represents the higher price level which prevailed during the year.

When prices are high, a business needs proportionately large profits, after taxes, in order to meet the increased cost and hazard of doing business together with the increased cost of the research and development necessary to keep a business sound and serviceable for stockholder, livestock producer, customer, and employee alike.

Our profits this year were not sufficient to pay for the new facilities and equipment we need in addition to replacing equipment which is obsolete or worn out. Our profit was certainly not enough to provide the extra money it takes to pay the prevailing higher prices for the meat and livestock we must have on hand in order to keep the business operating to capacity. Instead, this year, we have had to draw upon past savings. This is obviously a procedure which cannot continue indefinitely.

It was during the twenty years ended 1941 that this business grew to have approximately the plant facilities which have been in our ser-

vice during this past year. Those were critical years in the development of this business and its usefulness to the communities it serves.

During those twenty years we processed and distributed more than three-quarters of a billion dollars worth of meat on which we had an average profit of 2.82 cents per dollar of sales. During the past year we handled more than one-quarter of a billion dollars worth of meat at a profit rate of 1.42 cents per dollar of sales.

Had we worked on this lower rate of profit during the twenty years before the war, the difference in the amount of money available for the growth and development of the business would have been more than 11 million dollars—a little bit more than the amount of money we actually did invest during those years on plant and equipment and working capital. Without that profit, the business could not have grown and expanded. Without it, it is fair to assume that we would still have 1200 employees instead of the 4495 we had in 1941 and instead of the 6957 who were on the company payroll at the close of this year. At today's rates of pay that would make a difference of more than $23,000,000 in our annual payroll amount.

It is true that at this year's lower rate of profit, figured at pre-war prices, the cost of our profit to the livestock producer would have been only 13 or 14 cents per hundredweight of livestock handled. However, if we had not had the profit with which to grow, we would be providing the farmer with a market for the 663,971 head of livestock for which we had facilities in 1922, as against the 2,823,768 head which we handled this year. We would not have the facilities to further process and refine our livestock products, making them more desirable to the consumer and thus giving the livestock producer a higher price than his livestock would bring him if it were less fully processed in the packinghouse.

For this business to grow and develop to be of greatest service in the future requires that we continue to have ample funds for growth, expansion, and improvement. To have these funds, it is necessary that profits, after taxes, be proportionately high when the cost of buildings and equipment, and merchandise we handle, and the services we need, is high.

During the past year we have materially improved our facilities and equipment at Austin. Livestock procurement facilities have been improved and increased at various of our points throughout our area. The new one story packinghouse at Fremont is well under way. Slaughtering facilities have been improved in our Mitchell and Dallas plants. Canning facilities have been added in Dallas. Manufacturing facilities have been expanded and improved, particularly in Houston and San Antonio.

Among the facilities for which we should provide during the coming year is, of course, the completion and equipping of the Fremont plant. Substantial increases should be made in processing and manufacturing facilities here at Austin, together with the addition of such facilities at several of our branches. One example of the need for more money available when prices are high will be impressed upon us in this year in San Francisco where the Highway Department has condemned our present location for highway expansion and where our low cost premises must be replaced at the high costs which now prevail.

The total number of employees on the payroll of the company at the end of the year was 6957, an increase of 570 over last year. 570 also happens to be the exact number of people newly employed in the Austin plant during the year. 351 left for various reasons during the year, leaving 4,170 on the Austin plant payroll on November first.

Of those who left during the year, 9 died, 11 reached retirement age, 24 left for reasons of ill health, 18 went farming, 21 went into other business for themselves, 70 went back to school—leaving 198, or well under five percent, who left us for miscellaneous reasons and who, therefore, might be considered as "turnover".

The Company continues its system of incentive pay for added production. It continues its Joint Earnings Plan which not only permits the employee to share in the fortunes of the business, but rewards him for the outstandingly good workmanship and co-operation which we have received. The average annual income of Company employees for the year was $4,424.96. The average for the Austin plant alone was $4,179.75.

The Hormel Employees' Profit-Sharing Trust is becoming significant in the provision which it is making for the old age or retirement of our people. As of the close of this fiscal year, there has been accumulated for each employee with more than 30 years of service, $10,521.45.

Because our people have taken care of the business we have, and because the livestock producer, taking advantage of favorable weather conditions, has been successful in promoting his own business, thus providing us with the promise of adequate supplies of raw material, your Company looks forward to continuing successful operations in the immediately foreseeable future.

H. H. Corey
President

BALANC

Geo. A. Hormel & Comp

October

ASSETS

CURRENT ASSETS				$23,924,074
Cash			$ 3,070,510	
Trade accounts receivable less reserve of $100,000			7,858,033	
Inventories:				
Products, livestock, packages and materials—at lower of cost or market (cost of production is based on market at date of production)			12,755,531	
Refundable federal income taxes and interest—estimated			240,000	
DEFERRED CHARGES AND OTHER ASSETS				349,912
Unexpired insurance premiums			$ 276,454	
Properties not used in operations—at cost less reserves for depreciation of $31,337			26,432	
Sundry securities, notes and accounts, less reserve of $33,650			47,026	
PROPERTY, PLANT AND EQUIPMENT				10,743,846
	Cost	Reserves	Net Balance	
Land	$ 194,956		$ 194,956	
Buildings	8,620,707	$2,430,129	6,190,578	
Machinery and equipment	7,107,059	3,801,117	3,305,942	
Leasehold improvements	578,645	321,816	256,829	
Construction in process	336,696		336,696	
	$16,838,063	$6,553,062	$10,285,001	
Movable equipment—inventory basis			458,845	
				$35,017,832

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any — Austin, Minnesota

30, 1948

LIABILITIES

CURRENT LIABILITIES			$13,207,550
Accounts payable and accrued expenses		$ 3,219,447	
Salaries, wages and profit sharing payments		6,790,648	
Income taxes withheld from employees and pay roll taxes		450,673	
Dividends payable November 15th		312,306	
Federal taxes on income—estimated		2,434,476	
CAPITAL STOCK AND SURPLUS			21,810,282
Preferred stock, cumulative, par value $100:			
Authorized—48,935 shares			
Issued—Series A, 6% (callable at $105)	14,554 shares	$ 1,455,400	
In treasury	100 shares	10,000	
Outstanding	14,454 shares	$ 1,445,400	
Common stock, no par value:			
Authorized—500,000 shares			
Issued	493,944 shares	$ 6,116,586	
In treasury	28,944 shares	358,414	
Outstanding	465,000 shares	$ 5,758,172	
Surplus (including earned surplus of predecessor corporation)		14,606,710	
			$35,017,832

SUMMARY OF PROFIT AND LOSS STATEMENT

Geo. A. Hormel & Company

Fiscal year (53 weeks) ended October 30, 1948

SALES (less returns and allowances)		$272,223,360	
Less freight and express		6,805,676	
NET SALES			$265,417,684
COSTS, EXPENSES AND TAXES (Itemized below)			261,638,283
MATERIAL COSTS AND EXPENSES		$229,322,510	
Cost of products sold, selling, administrative and general expenses, exclusive of items shown separately	$228,147,358		
Provision for depreciation and amortization	1,052,054		
Sundry charges less sundry income and credits (including $108,683 interest income on federal income taxes)	123,098		
TOTAL WAGE COSTS		29,176,430	
Wages and salaries, including joint earnings	$ 27,296,269		
Contribution to employees' profit-sharing trust	1,558,980		
Unemployment and federal old age benefit contributions	321,181		
TOTAL TAXES		3,139,343	
State income, property and other taxes	$ 789,343		
Federal taxes on income: Provision for the year—estimated	2,350,000		
		NET PROFIT	$ 3,779,401

SUMMARY OF SURPLUS

Geo. A. Hormel & Company

Fiscal year (53 weeks) ended October 30, 1948

SURPLUS—October 25, 1947			$11,797,849
Add:			
Net profit for the year		$3,779,401	
Additional adjustment of federal income taxes under relief claims credited to surplus in the year 1945		178,684	
Unused reserve for contingencies		100,000	
		$4,058,085	
Deduct cash dividends:			
On preferred stock--$6.00 per share	$ 86,724		
On common stock--$2.50 per share	1,162,500	1,249,224	2,808,861
SURPLUS—October 30, 1948			$14,606,710

ACCOUNTANTS' REPORT

To the Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the balance sheet of Geo. A. Hormel & Company as of October 30, 1948, and the related summaries of profit and loss and surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and summaries of profit and loss and surplus present fairly the financial position of Geo. A. Hormel & Company at October 30, 1948, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Minneapolis, Minnesota
November 26, 1948